



December 2015

DOD FINANCIAL MANAGEMENT

Improved
Documentation
Needed to Support
the Air Force's Military
Payroll and Meet
Audit Readiness
Goals

December 2015

DOD FINANCIAL MANAGEMENT

Improved Documentation Needed to Support the Air Force's Military Payroll and Meet Audit Readiness Goals

Why GAO Did This Study

As part of DOD's efforts to achieve auditability of its financial statements, the Air Force in July 2014 asserted audit readiness for its Schedule of Budgetary Activity, of which military payroll is a significant part. In fiscal year 2014, the Air Force obligated over \$23 billion for direct compensation of active duty servicemembers.

GAO was asked to examine Air Force military payroll systems and processes. This report evaluates whether for the period October 1, 2013, through July 31, 2014, the Air Force (1) had in place systems and processes designed to provide a complete universe of active duty military pay transactions and (2) could provide adequate documentation to support individual military payroll transactions. GAO examined the Air Force's reconciliations of its payroll system to personnel, accounting, reporting, and disbursement information. GAO selected random statistical samples from various categories of military pay to determine if the Air Force could provide key documents supporting those transactions.

What GAO Recommends

GAO recommends that the Air Force improve its ability to maintain and readily provide, for management and audit purposes, documentation to support certain types of active duty pay by (1) identifying the causes of the deficiencies responsible for delayed, missing, and incomplete documentation and (2) implementing controls to help assure that documentation is readily available. The Air Force agreed with the report and its recommendations.

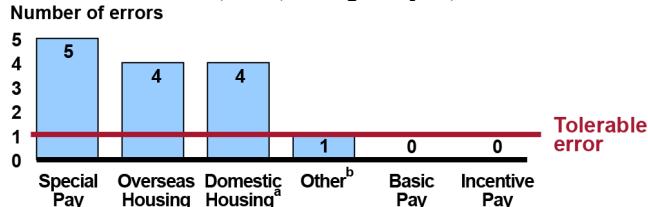
View [GAO-16-68](#). For more information, contact William J. Cordrey at (404) 679-1873 or cordreyw@gao.gov.

What GAO Found

Based on GAO's testing of the first 10 months of fiscal year 2014, the Air Force and its service provider, the Defense Finance and Accounting Service, had in place systems and processes designed to provide a complete universe of Air Force active duty military payroll transactions. In addition to reconciling payroll information with accounting, financial reporting, and disbursement information, the Air Force reconciles its payroll system with its personnel system each month to help reasonably assure that actual servicemembers are being paid and are paid correctly. GAO found that the reconciliations were documented and supported the Air Force's ability to provide a population of active duty military payroll transactions for the period tested.

GAO's testing of randomly selected active duty payroll transactions, for the period tested, found that the Air Force could not always provide or readily provide supporting documentation for some categories of pay. While the Air Force provided adequate support for three categories of military payroll—including basic pay, the largest category by dollar amount—it could not always provide or readily provide support for domestic and overseas housing transactions or special pay benefits. The Air Force stated that it could not determine the cause for the missing documentation, nor did it identify to us the cause of delays in retrieving and providing the supporting documentation.

Results of GAO's Tests of the Air Force's Active Duty Payroll Transaction Documentation for the Period October 1, 2013, through July 31, 2014



For each of the six pay categories shown above, GAO tested a random sample of 45 transactions with a tolerable error of 1 per sample. This would allow GAO to be 90 percent confident that the error rate of the population would not exceed 10 percent.

^aThe sample of 45 transactions was limited to July 2014, the final month of our 10-month sample period.

^bIncludes allowances for cost of living, family separation, and uniforms and clothing.

Source: GAO sampling test results. | GAO-16-68

Documentation supporting payroll transactions is one of many key financial controls that helps to provide reasonable assurance that servicemembers are appropriately paid. Department of Defense (DOD) regulations and guidance as well as *Standards for Internal Control in the Federal Government* require that audited entities document transactions and events and that this documentation be readily available for examination for management and audit purposes. Without continued focus on ensuring that documentation is readily available to support military payroll, both the Air Force and DOD are at risk that military personnel may not be paid appropriately and that financial statement auditability goals may not be achieved.

Contents

Letter		1
Background		3
The Air Force Had in Place Systems and Processes Designed to Produce a Complete Universe of Active Duty Military Pay Transactions		6
The Air Force Could Not Always Provide or Readily Provide Supporting Documentation for Certain Categories of Active Duty Payroll Transactions		9
Conclusions		15
Recommendations for Executive Action		15
Agency Comments and Our Evaluation		16
Appendix I	Objectives, Scope, and Methodology	18
Appendix II	Comments from the Department of the Air Force	22
Appendix III	GAO Contact and Staff Acknowledgments	24
Figures		
Figure 1: The Air Force's Fiscal Year 2014 Active Duty Direct Compensation Obligations		4
Figure 2: Results of GAO's Tests of the Air Force's Active Duty Payroll Transaction Documentation for the Period October 1, 2013, through July 31, 2014		13

Abbreviations

AFAA	Air Force Audit Agency
DFAS	Defense Finance and Accounting Service
DJMS-AC	Defense Joint Military Pay System-Active Component
DOD	Department of Defense
FBWT	Fund Balance with Treasury
FIAR	Financial Improvement and Audit Readiness
Treasury	Department of the Treasury

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

December 17, 2015

The Honorable Ron Johnson
Chairman
The Honorable Thomas R. Carper
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Claire McCaskill
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable K. Michael Conaway
House of Representatives

The Department of Defense (DOD) continues to work toward achieving audit readiness of its financial statements. As part of that effort, in July 2014 the Air Force asserted audit readiness for its Schedule of Budgetary Activity,¹ of which military payroll is a significant component.² Earlier that year, the Air Force Audit Agency (AFAA)³ had reported that the Air Force

¹Unlike the Statement of Budgetary Resources, which reflects multiple-year budget activity, the Schedule of Budgetary Activity reflects the balances and associated activity related only to funding approved on or after the beginning of the fiscal year. As a result, the Schedule of Budgetary Activity excludes unobligated and unexpended amounts carried over from prior years' funding as well as information on the status and use of such funding in subsequent years (e.g., obligations incurred and outlays).

²In fiscal year 2014, the Air Force obligated over \$23 billion for direct compensation of active duty servicemembers, a force of approximately 324,000.

³AFAA provides Air Force management with various audit, review, and examination services. Structure and reporting of AFAA was modified pursuant to the Goldwater-Nichols Department of Defense Reorganization Act of 1986, wherein the Auditor General of the Air Force reports directly to the Secretary of the Air Force who has sole responsibility for the function. Pub. L. No. 99-433, 100 Stat. 993 (Oct. 1, 1986).

was unable to provide supporting documentation for some categories of military payroll transactions.⁴

We have designated DOD financial management as a high-risk area since 1995 due to because of pervasive weaknesses in its financial and business management systems, as well as control deficiencies,⁵ which have adversely affected its ability to reasonably assure basic accountability, maintain funds control, and prepare auditable financial statements.⁶ You asked us to assess the Air Force's military pay audit readiness efforts. This report evaluates whether the Air Force, for the period we tested, (1) had in place systems and processes designed to provide a complete universe of active duty military pay transactions prepared through its central payroll processing system and (2) could provide adequate documentation to support individual active duty payroll transactions.

To determine whether the Air Force had in place systems and processes designed to provide a complete universe of active duty military pay transactions from its payroll system, we obtained data files representing all military payroll transactions processed during the first 10 months of fiscal year 2014 (October 1, 2013, through July 31, 2014)⁷ and examined various reconciliations of the data to personnel and financial records. Specifically, we reviewed the Air Force's monthly reconciliation of its payroll and personnel accounts, which helps to reasonably assure that only actual personnel are paid; its monthly and quarterly reconciliations of its payroll and accounting systems, which helps to reasonably assure that all military payroll transactions processed are recorded in the accounting and reporting systems; and its monthly reconciliation of accounting records to Department of the Treasury (Treasury) reports, which helps reasonably assure that the amount of military pay recorded was actually disbursed by Treasury. To determine whether the Air Force could provide

⁴Air Force Audit Agency, *Military Pay Supporting Documentation (Phase II)*, F2014-0001-L10000 (February 2014).

⁵A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

⁶GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

⁷This time frame reflected the most current data available when we began our work in July 2014.

adequate supporting documentation for active duty pay transactions, we selected random statistical samples from the 10-month universe of active duty military payroll transactions provided by the Air Force and reviewed the supporting documentation. We also reviewed the Air Force's corrective actions to address the deficiencies reported by AFAA related to supporting documentation for domestic housing transactions, a category of military pay.⁸

Appendix I provides additional information on our objectives, scope, and methodology. We conducted this performance audit from July 2014 to December 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

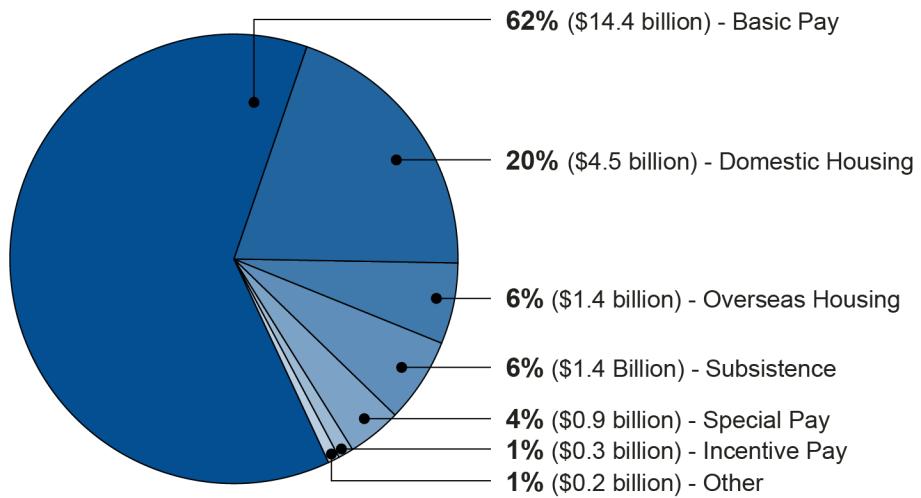
In fiscal year 2014, the Air Force recorded payroll obligations of over \$23 billion for direct compensation of active duty military personnel, a force of approximately 324,000.⁹ This compensation, including, among other things, basic pay, allowances, and incentives, was distributed among the various pay categories, as shown in figure 1. These pay categories are described later in this report.¹⁰

⁸Air Force Audit Agency, *Military Pay Supporting Documentation (Phase II)*. While the report identified several deficiencies, domestic housing documentation was the most significant and thus AFAA only made recommendations specific to this category of pay.

⁹An obligation is a definite commitment that creates a legal liability for the payment of goods and services ordered or received. Payment may be made immediately or in the future.

¹⁰The Air Force was appropriated more than \$28 billion in fiscal year 2014 for active duty military personnel pay, allowances, subsistence, and other personnel expenses. In addition to direct compensation of servicemembers, active duty payroll expenses include accruals for retired pay and the employer's share of Social Security and Medicare. Consolidated Appropriations Act, 2014, Pub. L. No. 113-76, Division C, Title I, 125 Stat. 5, 87 (Jan. 17, 2014).

Figure 1: The Air Force's Fiscal Year 2014 Active Duty Direct Compensation Obligations



Source: GAO analysis of Air Force data. | GAO-16-68

Audit Readiness

DOD has been unable to prepare auditable department-wide financial statements as required by the Government Management Reform Act of 1994.¹¹ The National Defense Authorization Act for Fiscal Year 2010 mandated that DOD develop and maintain a Financial Improvement and Audit Readiness (FIAR) plan.¹² The plan is to include, among other things, the specific actions to be taken and costs associated with (1) correcting the financial management deficiencies that impair DOD's ability to prepare timely, reliable, and complete financial management information and (2) ensuring that DOD's financial statements are validated as ready for audit by September 30, 2017. Per the FIAR plan, "audit ready" means the department has strengthened internal controls and improved financial practices, processes, and systems so there is

¹¹Pub. L. No. 103-356, § 405(a), 108 Stat. 3410 (Oct. 13, 1994), codified as amended at 31 U.S.C. § 3515.

¹²Pub. L. No. 111-84, § 1003, 123 Stat. 2189, 2439-41 (Oct. 28, 2009).

reasonable confidence that the information can undergo an audit by an independent auditor.¹³

In response to difficulties encountered in preparing for an audit of the Statement of Budgetary Resources, DOD reduced the scope of initial Statement of Budgetary Resources audits beginning in fiscal year 2015 to focus on current-year budget activity reported on a Schedule of Budgetary Activity. This is an interim step toward achieving an audit of multiple-year budget activity required for an audit of the Statement of Budgetary Resources.

In July 2014, the Air Force indicated that its fiscal year 2015 Schedule of Budgetary Activity would be audit ready and would be prepared in all material respects in conformity with U.S. generally accepted accounting principles.¹⁴ DOD requires the services to follow the FIAR Guidance methodology in asserting audit readiness. The guidance requires complete documentation that is sufficient, relevant, and accurate. The FIAR methodology also requires that the assertion documentation provide evidence demonstrating that the reporting entity has designed and implemented an appropriate combination of control activities and supporting documentation to mitigate the risk of material misstatement and achieve the financial reporting objectives.

Pay Data and Supporting Documentation

The Air Force Personnel Center is responsible for establishing and maintaining military personnel accounts in the personnel system. Once a servicemember's personnel file is created, it is electronically transferred into the payroll system where a pay account is created for that servicemember.¹⁵ The personnel and payroll systems electronically interface daily to record any changes. Air Force Financial Services Office staff are responsible for submitting changes not driven by personnel

¹³To undergo an audit does not necessarily mean that the department is representing that it will receive an unmodified opinion on the information being audited, but rather that there is a reasonable basis for an independent auditor to audit the information.

¹⁴The Air Force is currently undergoing an audit of its General Fund Schedule of Budgetary Activity by an independent public accounting firm.

¹⁵For each servicemember, the Defense Joint Military Pay System-Active Component maintains a pay account, which is a record containing all the data needed to calculate that servicemember's gross pay, allotments, and deductions.

actions, such as those concerning housing allowances. Documentation supporting payroll changes for individual servicemembers generally is to be scanned into one of two document management systems: one for personnel actions and another for all other changes.

The Defense Finance and Accounting Service (DFAS), a separate component of DOD, processes the Air Force's active duty military payroll using its Defense Joint Military Pay System-Active Component. DFAS systems also process the associated disbursements and record the entries to the general ledger maintained for the Air Force.

The Air Force Had in Place Systems and Processes Designed to Produce a Complete Universe of Active Duty Military Pay Transactions

Based on our testing, we determined that the Air Force and DFAS had in place systems and processes designed to provide a complete universe of active duty military pay transactions for the period we tested. The Air Force's documented processes included reconciling payroll information with accounting, financial reporting, and disbursement information, designed to provide reasonable assurance that payroll transactions are properly recorded in the Statement of Budgetary Resources or the Schedule of Budgetary Activity and are consistent with personnel records. The Air Force provided us with transaction data processed by its payroll system for each of the first 10 months of fiscal year 2014 (October 1, 2013, through July 31, 2014) and the related reconciliations. We performed walk-throughs of each type of reconciliation discussed below. Based on those procedures we did not identify any concerns regarding Air Force processes and controls. However, our scope did not include all procedures that might be performed in a financial audit of the Statement of Budgetary Resources or the Schedule of Budgetary Activity.

- **Reconciliation of payroll to personnel.** We found that the Air Force performed a monthly reconciliation between the payroll system and personnel system and generally resolved mismatches within 45 days. To determine this, we reviewed documentation covering 1 month of the Air Force's monthly reconciliation between the individual pay records in the payroll system and personnel system.¹⁶ This reconciliation helps reasonably assure that payees are actual servicemembers and that the characteristics that drive their pay, such as years of service and rank, match what is recorded in the personnel

¹⁶The Air Force reconciles 16 data elements that include items such as name, duty status, service dates, selective reenlistment bonus, and special duty assignment pay.

system. We reviewed the Air Force's reconciliation for 1 month to gain an understanding of how the Air Force matches data elements. For data mismatches between the individual payroll records and personnel records that cannot be immediately resolved, the Air Force creates a tracking record to help reasonably assure that they are researched and resolved within 45 days, in accordance with Air Force guidelines. We tested the Air Force's process by reviewing documentation detailing the monthly mismatch and aging statistics for open tracking records internally reported by the Air Force and found that the Air Force researches the mismatches.

- **Reconciliation of payroll system to accounting system.** We reviewed each of DFAS's fiscal year 2014 quarterly reconciliations between the payroll and accounting systems and found that they accurately imported data from the payroll system and compared them to disbursement data in the accounting system, helping to reasonably assure that the population of transactions was completely reported in the accounting system. Because the payroll system does not interface directly with the accounting system, DFAS developed the Military Pay Reconciliation Tool (Reconciliation Tool), a Microsoft Access application, to facilitate this reconciliation process. The Reconciliation Tool tracks payroll data from the payroll system to the disbursements recorded in the accounting system. The Reconciliation Tool also allows DFAS to compare an individual servicemember's Leave and Earnings Statement with detailed data in the payroll system.¹⁷ We tested the reconciliation process by reviewing documentation provided by the Air Force that demonstrated how data are processed through the payroll system in the form of vouchers and subsequently reconciled to the accounting system.

¹⁷The Leave and Earnings Statement consolidates the servicemember's pay information into a monthly statement.

- **Reconciliation of military pay to Fund Balance with Treasury (FBWT).**¹⁸ We reviewed the monthly reconciliation DFAS performs for the Air Force between the accounting system and Treasury's government-wide accounting system. According to Air Force officials, this multi-tiered reconciliation helps to assure that the recorded military payroll transactions were actually disbursed through Treasury accounts. We reviewed key documentation with Air Force personnel to understand the nature, timing, and frequency of the reconciliations. The documentation showed that the Air Force was able to tie military payroll to its FBWT reconciliation. In addition, we traced and agreed payroll system totals that included each of the 10 months to Treasury records. However, our scope did not include tests for all elements of the reconciliation, and we did not assess the accuracy of the recorded balance of FBWT.
- **Reconciliation of accounting records to the Statement of Budgetary Resources.** We found that DFAS was able to trace the recorded payroll to the Statement of Budgetary Resources. To determine this, we reviewed DFAS's quarterly reconciliation between the accounting system and the financial reporting system.¹⁹ DFAS's reconciliation between these systems helps to reasonably assure the accuracy of amounts reported in the Statement of Budgetary Resources. We reviewed each of DFAS's fiscal year 2014 quarterly reconciliations of the accounting system and compared them to certain key line items of the Statement of Budgetary Resources—specifically, obligations incurred and gross outlays—of which a portion of the amounts in each included active duty direct compensation.²⁰ We were able to trace the amounts in the payroll accounting system

¹⁸FBWT is an asset line on the balance sheet that represents the aggregate amount of funds in the department's numerous accounts with Treasury that DOD is authorized to spend. In simple terms, FBWT is similar to a personal checking account balance that must be increased for deposits (appropriations and collections) and decreased for expenditures. Because of the size of the DOD budget and the enormous amount of funds expended and collected, the number of accounting transactions that must be reconciled between DOD accounts and Treasury is very large and the task complex. DOD has stated that because of complexities and other reconciliation challenges, the department has routinely made unsupported journal entries to adjust DOD balances to match Treasury balances.

¹⁹The financial reporting system collects and consolidates information for financial statement presentation.

²⁰Military pay was approximately 14 percent of obligations incurred of \$163 billion. Obligations incurred were approximately 86 percent of the Air Force's total budgetary resources as reported in its unaudited fiscal year 2014 financial statements.

to the Statement of Budgetary Resources and found that they had been properly recorded.

The Air Force Could Not Always Provide or Readily Provide Supporting Documentation for Certain Categories of Active Duty Payroll Transactions

We selected statistical samples of six categories of military pay and, based on the testing we performed, found that while the Air Force could provide adequate supporting documentation for three of the categories, it was not able to provide or readily provide documentation for certain transactions involving Special Pay, Overseas Housing, and Domestic Housing. For fiscal year 2014, these three categories of military pay represented nearly 30 percent of active duty direct compensation obligations. We also tested a statistically selected sample of change order transactions, which represent pay from all categories initiating the start, stop, or update of an entitlement, and found that the Air Force could not provide documentation for certain of these transactions as well.

The DOD Financial Management Regulation requires the military components to maintain documentation supporting all transactions recorded in finance and accounting systems.²¹ Additionally, *Standards for Internal Control in the Federal Government*²² and DOD's FIAR Guidance require audited entities to document transactions and events, and to reasonably assure that internal controls are effective to help ensure that supporting documentation is maintained and readily available for management and audit purposes. Without adequate documentation to support its military payroll transactions, both the Air Force and DOD are at risk that military personnel may not be paid appropriately and financial statement auditability goals may not be achieved.

To test the Air Force's ability to provide supporting documentation, we selected several random statistical samples—a total of 360 active duty military payroll transactions—from transactions recorded during the first 10 months of fiscal year 2014 (October 1, 2013, through July 31, 2014) except for Domestic Housing for which a single month of transactions was

²¹DOD Financial Management Regulation (FMR) 7000.14-R, vol. 1, ch. 9, *Financial Records Retention* (August 2011).

²²GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). GAO recently revised and reissued *Standards for Internal Control in the Federal Government*, with the new revision effective as of October 1, 2015. See [GAO-14-704G](#) (Washington, D.C.: September 2014).

selected.²³ This included a sample of 90 change actions, which represent changes to a servicemember's status or entitlements that could affect any of the pay categories.

We drew separate random statistical samples of 45 transactions from each of the categories of military pay listed below. These six categories, which are defined below, accounted for approximately 94 percent of the Air Force's fiscal year 2014 total active duty direct compensation obligations.²⁴

- **Basic Pay** is the primary form of pay for most servicemembers and is based on rank and years of service. In fiscal year 2014, it accounted for over 60 percent of active duty direct compensation obligations. Examples of supporting documentation for Basic Pay include enlistment agreements, promotion orders, and Statements of Service.
- **Domestic Housing** is a U.S.-based allowance that enables military personnel to obtain adequate civilian housing for themselves and their dependents when government quarters are not available. It accounted for about 20 percent of active duty direct compensation obligations in fiscal year 2014. As previously noted, our sampling universe for Domestic Housing was limited to the month of July 2014. The primary supporting document for Domestic Housing is Air Force Form 594 (Application and Authorization to Start, Stop, or Change Basic Allowance for Quarters (BAQ) or Dependency Redetermination).
- **Overseas Housing**, including overseas cost-of-living allowances, accounted for approximately 6 percent of active duty direct compensation obligations in fiscal year 2014. Servicemembers stationed outside the continental United States who are not furnished government housing receive an overseas housing allowance. In

²³During our review, the Air Force was in the process of implementing corrective actions to address the documentation deficiencies identified by AFCAA related to domestic housing. We therefore limited our sample of 45 transactions to July 2014—the final month of our 10-month sample period—to determine whether the Air Force's actions were adequate.

²⁴A seventh category, subsistence, made up the remaining 6 percent of active duty direct compensation obligations. The Basic Allowance for Subsistence is intended to provide meals for the servicemembers. Subsistence, which changes annually, is generally paid at one of two rates—one for officers and one for enlisted servicemembers. While we did not test the availability of supporting documentation for eligibility, we did verify that all subsistence transactions for the period we tested conformed to the published rates.

general, the amount depends on a servicemember's location, pay grade, and dependency status.

- **Special Pay** includes enlistment, reenlistment, and retention bonuses; special pay and bonuses for critical skills, such as for certain medical officers; and special pay for duty subject to hostile fire or imminent danger. In fiscal year 2014, Special Pay accounted for approximately 4 percent of active duty direct compensation obligations. Examples of Special Pay supporting documents include job classification/on-the-job training forms, service contracts for medical officers, and certain travel orders and vouchers.
- **Incentive Pay** includes additional pay or bonuses for certain critical skills, such as career aviators and aircrew members; foreign language proficiency; and certain types of hazardous duty. In fiscal year 2014, it accounted for approximately 1 percent of active duty direct compensation obligations. Examples of supporting documentation for Incentive Pay include aeronautical orders and certificates of proficiency in strategic foreign languages.
- **Other Pay** includes domestic cost-of-living allowances, family separation allowances, and uniform and clothing allowances, each of which requires specific documentation. In fiscal year 2014, Other Pay accounted for about 1 percent of active duty direct compensation.

We tested random samples of transactions to determine whether the Air Force could provide documentation to support the population of individual payroll transactions.²⁵ We counted as errors all instances in which a necessary document could not be found, could not be readily provided, or the documents provided were incomplete. For all sampled items, we looked for sufficient and appropriate evidence of the servicemember's eligibility for the pay and the amount of the pay. Our scope of work did not include observation of Air Force personnel's document-handling procedures, identification or testing of internal controls, or examination of the Air Force's document management systems. Rather, we tested whether a specific control objective—maintaining and readily providing supporting documentation—was being met.

²⁵This sampling method was not designed to project a dollar impact of any errors found in our sample.

Maintaining and readily retrieving supporting documentation requires a complex series of manual and system processes, the combination of which can contribute to internal control deficiencies and process issues that may result in missing, misplaced, or incomplete documentation. Specifically, supporting documentation often originates in paper form and may be submitted at any of over 100 Air Force locations worldwide. Further, documentation may require approval from officials employed at another location; generally requires manual processing (such as faxing or scanning); and is ultimately stored in electronic form in one of two Air Force document management systems, one of which some Air Force personnel describe as not user friendly. The Air Force often cannot determine at what point in the document-handling and management process a breakdown occurred, resulting in missing or incomplete documentation.

While the Air Force was able to provide supporting documentation for three categories of active duty military pay transactions that we tested—Basic Pay, Incentive Pay, and Other Pay²⁶—there were three categories—Special Pay, Overseas Housing, and Domestic Housing—for which the Air Force was not always able or readily able to provide supporting documentation.²⁷ (See fig. 2.)

²⁶These active duty military pay transactions represented nearly 65 percent of the Air Force's direct compensation dollars.

²⁷In November 2015, the Air Force provided adequate supporting documentation for the following sample items counted as errors in our testing: 5 of 5 Special Pay transactions, 3 of 4 Overseas Housing transactions, 1 of 4 Domestic Housing transactions, and the Other transaction. The Air Force did not provide additional documentation for any of the 7 Change Action transactions counted as errors. Because it could not provide these documents until 10 months after our initial documentation request, both we and the Air Force still considered these errors.

Figure 2: Results of GAO's Tests of the Air Force's Active Duty Payroll Transaction Documentation for the Period October 1, 2013, through July 31, 2014



For each of the six pay categories shown above, GAO tested a random sample of 45 transactions with a tolerable error of 1 per sample. This would allow GAO to be 90 percent confident that the error rate of the population would not exceed 10 percent.

^aThe sample of 45 transactions was limited to July 2014, the final month of our 10-month sample period.

^bIncludes allowances for cost of living, family separation, and uniforms and clothing.

Source: GAO sampling test results. | GAO-16-68

Special Pay Documentation

We found that the Air Force could not readily provide supporting documentation for 5 transactions from our statistical sample of 45 special pay transactions. This exceeded our tolerable error rate of 1 in 45.²⁸ Air Force officials did not identify to us a cause for their delay in retrieving and providing supporting documentation.

Overseas Housing Documentation

We found that the Air Force was not able or readily able to provide adequate support for 4 transactions from our statistical sample of 45 transactions for overseas housing benefits. This exceeded our tolerable error rate of 1 in 45.²⁹ Documentation for those transactions was either not provided, not readily provided or was not signed by a certifying official. In one case, the Air Force determined that the supporting document was more than 6 years old, meaning that it would have been destroyed in accordance with Air Force policy.³⁰ Air Force officials stated that they could not determine the cause for the missing documentation.

²⁸For this sample, if fewer than 2 transactions with errors were found in our sample of 45 transactions, we would be 90 percent confident that the error rate of the population would not exceed 10 percent.

²⁹For this sample, if fewer than 2 transactions with errors were found in our sample of 45 transactions, we would be 90 percent confident that the error rate of the population would not exceed 10 percent.

³⁰Prior to 2015, Air Force policy allowed for the destruction of most documents supporting active duty pay after 3 years.

nor did they identify to us a cause for their delay in retrieving and providing some of the supporting documentation.

Domestic Housing Documentation

In 2014, AFAA reported that the Air Force could not adequately support its domestic housing transactions.³¹ To address the finding, the Air Force ordered all active duty military personnel claiming dependents to recertify their eligibility in writing.

To determine the effectiveness of this recertification and to determine whether it helped improve documentation supporting domestic housing transactions, we selected a statistical sample of 45 domestic housing transactions from the July 2014 active duty military payroll. Although we found no errors involving servicemembers claiming dependents, the Air Force was not able or readily able to provide supporting documentation for 4 transactions involving servicemembers not claiming dependents. This exceeded our tolerable error rate of 1 in 45.³² Air Force officials stated that they could not determine the cause for the missing documentation, nor did they identify to us a cause for their delay in retrieving and providing the supporting documentation.

Change Action Documentation

To determine whether the Air Force could provide supporting documentation filed during fiscal year 2014, we selected a statistical sample of 90 changes to active duty military payroll (hereinafter referred to as change actions) from the first 10 months of fiscal year 2014.³³ While supporting documentation for the regular pay transactions discussed above could be years old,³⁴ support for change actions recorded during

³¹AFAA's testing was performed from April through June 2013 on transactions randomly selected from the month of December 2012. See Air Force Audit Agency, *Military Pay Supporting Documentation (Phase II)*.

³²For this sample, if fewer than two errors were found in our sample of 45 transactions, we would be 90 percent confident that the error rate of the population would not exceed 10 percent.

³³Pay transactions coinciding with the start, stop, or update of a pay entitlement are specially coded in the payroll system.

³⁴Nearly all documentation supporting military pay is change documentation. For example, for a servicemember whose last promotion occurred 3 years ago, the document supporting the servicemember's present rank—and the basic pay the servicemember receives today—is 3 years old, and its availability and adequacy depends largely upon the internal controls that were in effect 3 years ago.

the period we tested would have been submitted during or shortly before fiscal year 2014—more nearly reflecting the current control environment.

We found that the Air Force was not able to provide supporting documentation for 7 of the 90 change actions we sampled. This exceeded our tolerable error rate of 4 in 90.³⁵ Specifically, we found that the Air force was not able to provide supporting documentation for 5 recent change actions related to overseas housing and 2 related to basic pay. Air Force officials stated that they could not determine the cause for the missing documentation.

Conclusions

While the Air Force, for the period we reviewed, had systems and processes designed to provide a complete universe of active duty military pay transactions, it could not always provide or readily provide supporting documentation for certain transactions in three of the categories of pay transactions nor could it generally determine the cause of missing, delayed, or incomplete documents. The ability to maintain and readily provide documentation supporting all pay categories is one of many key financial controls that help to provide reasonable assurance that servicemembers are appropriately paid and that military payroll is properly reported in the Air Force's financial statements. Additionally, maintaining and readily providing supporting documentation to substantiate financial transactions, often referred to as an audit trail, is a critical requirement to achieving audit success. Without continuing focus on ensuring that documentation is readily available to support military payroll transactions, both the Air Force and DOD are at risk that military personnel may not be paid appropriately and financial statement auditability goals may not be achieved.

Recommendations for Executive Action

To help reasonably assure that supporting documentation for military payroll, particularly for Special Pay, Overseas Housing, and Domestic Housing, is properly maintained and readily available for management and audit purposes, we recommend that the Secretary of the Air Force direct the Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller to take the following two actions:

³⁵For this sample, if fewer than five errors were found in our sample of 90 transactions, we would be 90 percent confident that the error rate of the population would not exceed 10 percent.

- Review the processes and systems used to obtain, maintain, and readily provide supporting pay documentation to identify the root cause of deficiencies responsible for delayed, missing, and incomplete documentation.
- Develop and implement internal controls to provide reasonable assurance that adequate supporting documentation is maintained and readily available for examination for management and audit purposes and to support that correct amounts are being paid for military payroll transactions.

Agency Comments and Our Evaluation

We provided a draft of this report to Air Force for review and comment. In its written comments, reprinted in appendix II, the Air Force concurred with our recommendations and stated that it had identified and subsequently implemented nine corrective actions and taken action to help reasonably assure that supporting documentation for military payroll is maintained and available. In November 2015—10 months following our initial request—the Air Force provided adequate supporting documentation for 10 of the 21 transaction exceptions identified in this report. While some documentation was ultimately found and provided at the close of the audit, Air Force officials agreed it was not provided timely and concurred with our judgment in counting them as errors since the documentation was not readily provided, which would be necessary under a full-scope financial statement audit in order to be considered by the auditors.

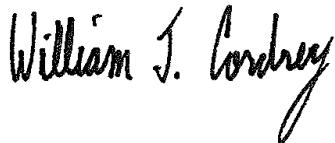
As auditors must complete their audits and federal agencies must submit their audited financial statements under statutorily established deadlines, agencies must be able to provide requested documentation to the auditors in a timely manner in order to be considered in the test results. Specifically, the FIAR guidance states that each service should ensure that it is prepared to respond to requests for audit documentation within 5 business days. For this audit, an Air Force official committed to provide audit documentation generally within 14 business days of the request in order to have sufficient time to redact personally identifiable information and to retrieve documents that were not centrally located.

We have made technical changes and clarified the recommendations as appropriate to reflect that the documentation was either not provided or not readily provided. However, without continuing focus on ensuring that documentation is readily available to support military payroll transactions, both the Air Force and DOD are at risk that military personnel may not be

paid appropriately and financial statement auditability goals may not be achieved.

We are sending copies of this report to the Secretary of Defense; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; the Deputy Chief Financial Officer; the Director, Financial Improvement and Audit Readiness; the Secretary of the Air Force; the Assistant Secretary of the Air Force Finance Command; the Directors of the Defense Finance and Accounting Service and the Defense Finance and Accounting Service-Indianapolis Center; the Director of the Office of Management and Budget; and interested congressional committees. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (404) 679-1873 or cordreyw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in appendix III.



William J. Cordrey
Acting Director
Financial Management and Assurance

Appendix I: Objectives, Scope, and Methodology

Our objectives were to determine whether the Air Force, for the period we tested, (1) had in place systems and processes designed to provide a complete universe of active duty military pay transactions prepared through its central payroll processing system and (2) could provide adequate documentation to support individual military payroll transactions.

To address our first objective, we requested and received all transaction data processed by the Defense Joint Military Pay System-Active Component (DJMS-AC) for each of the first 10 months of fiscal year 2014 (October 1, 2013, through July 31, 2014),¹ and we examined four reconciliations:

For the first reconciliation (payroll to personnel), we reviewed documentation describing the Air Force's monthly reconciliation of 16 data elements common to the servicemembers' records in the payroll and personnel systems, and examined one month's 1 month of reconciliation reports. We also verified that the Air Force tracks and resolves mismatches by reviewing internally reported monthly mismatch and aging statistics for open tracking records and by interviewing Air Force officials.

For the second reconciliation (payroll to accounting), we reviewed each of the Defense Finance and Accounting Service's (DFAS) fiscal year 2014 quarterly reconciliations between the payroll and accounting systems, which it accomplishes with the help of the Military Pay Reconciliation Tool, a Microsoft Access application that tracks payroll data from DJMS-AC to disbursements recorded in the accounting system. We also interviewed DFAS and Air Force officials and reviewed documentation describing how data are processed through the payroll system in the form of vouchers and subsequently reconciled to the accounting system.

For the third reconciliation (military pay to Fund Balance with Treasury (FBWT)), we reviewed the monthly reconciliation DFAS performs for the Air Force between the accounting system and the Department of the Treasury's (Treasury) government-wide accounting system. According to Air Force officials, this multilayered reconciliation helps to assure that the recorded military payroll transactions were actually disbursed through

¹This time frame reflected the most current data available when we began our work in July 2014.

Treasury records. We reviewed key documentation with Air Force personnel to understand the nature, timing, and frequency of the reconciliations. The documentation showed that the Air Force was able to tie military payroll to its FBWT reconciliation. In addition, we traced and verified payroll system totals that included each of the 10 months to Treasury records.

For the fourth reconciliation (accounting records to the Statement of Budgetary Resources), we reviewed each of DFAS's fiscal year 2014 quarterly reconciliations between the accounting system and the financial reporting system for two key line items of the Statement of Budgetary Resources—obligations incurred and gross outlays—of which a portion of each included active duty direct compensation.² We also interviewed DFAS and Air Force officials.

To address our second objective, we selected random samples of pay transactions from our universe to determine whether the Air Force could provide supporting documentation for individual active duty pay transactions and to determine the effectiveness of its corrective actions to address previously reported deficiencies with domestic housing documentation. We performed sampling tests of seven populations, in which we included only active duty pay (appropriation symbol 3500) in our sampling universes. We excluded from our universes pay types that do not represent amounts paid to servicemembers, such as retired pay accruals or employer's share of Social Security.

We first segregated regular pay transactions from change actions (those pay transactions initiating a stop, start, or update of pay). For regular pay, we drew random statistical samples of 45 transactions from each of the following pay category populations.³

- Basic Pay
- Domestic Housing

²The financial reporting system collects and consolidates information for financial statement presentation.

³Subsistence, which changes annually, is generally paid at one of two rates—one for officers and one for enlisted servicemembers. While we did not test the availability of supporting documentation for eligibility, we did verify that all subsistence transactions for the period we tested conformed to the published rates.

- Overseas Housing
- Special Pay
- Incentive Pay
- Other (allowances for cost of living, family separation, and uniforms and clothing)

For change actions, we drew one random statistical sample of 90 transactions from a population representing all the pay categories listed above.

To determine whether documentation supporting domestic housing transactions was complete and had been improved as a result of the Air Force's corrective action, we requested and reviewed the supporting documentation for a randomly selected statistical sample of 45 domestic housing transactions for the July 2014 active duty military payroll. The Air Force's corrective action—taken in response to deficiencies that the Air Force Audit Agency identified—was to require recertification of domestic housing benefits for servicemembers with dependents.⁴

Our sampling plan was based on a 90 percent confidence interval and a tolerable error rate of 10 percent. This sampling plan allowed us to determine that for a randomly selected statistical sample size of 45, our tolerable error rate would be 1 or fewer transactions with errors and for a sample size of 90, the tolerable error would be 4 or fewer transactions with errors.

We examined the documentation provided by the Air Force and determined its sufficiency and appropriateness with regard to the data necessary to establish eligibility and calculate pay. Our primary sources of criteria were the Department of Defense's (DOD) Financial

⁴During our review, the Air Force's recertification efforts were ongoing; therefore, we limited our sample to the month of July—the final month of our 10-month sample—to determine whether the Air Force's corrective action was adequate.

Management Regulation, Air Force instructions,⁵ federal travel regulations,⁶ and official pay rate tables.

Our sampling tests were not designed to project a dollar impact of any errors found. We counted as errors all instances in which a necessary document could not be found, was not readily provided or was incomplete. For all sampled items, we looked for sufficient and appropriate evidence of the servicemember's eligibility for the pay and the amount of the pay. For basic pay sample items and for change actions based on a change in grade, we tested support for rank and years of service. For other pay types that depend in part on these factors, we tested only the support for the other factors involved, such as duty location, number of dependents, or specialty code.

Our scope of work did not include observation of Air Force personnel's document-handling procedures, identification or testing of internal controls, or examination of the Air Force's document management systems. Rather, we tested whether a specific control objective—maintaining and readily providing supporting documentation—was being met. We relied on the Air Force to retrieve the supporting documents and to determine, as far as possible, the causes of missing or incomplete documents.

We conducted this performance audit from July 2014 to December 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁵DOD Financial Management Regulation 7000.14-R, vol. 7A (June 2014); Department of the Air Force, *Classifying Military Personnel*, Air Force Instruction 36-2101 (June 2013); Department of the Air Force, *Airman Promotion/Demotion Programs*, Air Force Instruction 36-2502 (December 2009); and, Department of Defense, *Military Foreign Language Skill Proficiency Bonuses*, DOD Instruction 1340.27 (May 2013).

⁶Department of Defense, *Joint Federal Travel Regulations* (July 2014).

Appendix II: Comments from the Department of the Air Force

 DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

NOV 30 2015

Mr. William Cordey
Acting Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Cordey,

This is the Department of the Air Force response to the GAO Draft Report, GAO-16-68, "DoD Financial Management: Improved Documentation Needed to Support Air Force's Military Payroll and Meet Audit Readiness Goals," dated November 5, 2015 (GAO Code 197134).

The Air Force acknowledges receipt of the draft report. We appreciate GAO's acknowledgement of the Air Force's ability to produce a complete universe of active-duty military pay transactions. We concur with GAO's finding and recommendations. Our actions are detailed in the enclosure and corrective actions have already been completed.

If you have any questions, my action officer is Ms. Becky Allen, at 703-692-6179 or rebecca.l.allen42.civ@mail.mil.


Douglas M. Bennett
Principal Deputy Assistant Secretary
(Financial Management and Comptroller)

Enclosure:
As stated

**GAO DRAFT REPORT DATED NOVEMBER 5, 2015
GAO-16-68 (GAO CODE 197134)**

2

**“DOD FINANCIAL MANAGEMENT: IMPROVED DOCUMENTATION NEEDED TO
SUPPORT AIR FORCE’S MILITARY PAYROLL AND MEET AUDIT READINESS
GOALS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION**

RECOMMENDATION: To help reasonably assure that supporting documentation for military payroll, particularly for special pay, overseas housing, and domestic housing, is properly maintained and available for management and audit purposes, the GAO recommends that the Secretary of the Air Force direct the Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller:

- A. To review the processes and systems used to obtain, maintain, and provide supporting pay documentation to identify the root cause of deficiencies responsible for missing or incomplete documentation.
- B. To develop and implement internal controls to provide reasonable assurance that adequate supporting documentation is maintained and available for examination for management and audit purposes to support that correct amounts are being paid for military payroll transactions.

DOD RESPONSE: Concur. The report evaluation period is October 2, 2013 through July 31, 2014, and Air Force had identified nine corrective actions plans in various stages of implementation when this began. All nine corrective action plans have subsequently been closed. The Air Force has taken action to help reasonably assure that supporting documentation for military payroll is maintained and available. Air Force is currently under the Schedule of Budgetary Activity audit by Independent Public Accounting firm and the first round of testing has not identified any documentation issues. If any issues are identified Air Force will address them and create new corrective action plans. Recommendation is closed.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

William J. Cordrey, (404) 679-1873 or cordreyw@gao.gov

Staff Acknowledgments

In addition to the contact above, key contributors to this report were Paul Kinney (Assistant Director), Russell Brown, Jason Kelly, Sharon Kittrell, James Ungvarsky, and Matthew Ward.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<http://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <http://www.gao.gov> and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).
Subscribe to our [RSS Feeds](#) or [E-mail Updates](#).
Listen to our [Podcasts](#) and read [The Watchblog](#).
Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:
Website: <http://www.gao.gov/fraudnet/fraudnet.htm>
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548



Please Print on Recycled Paper.